

Do submarkets exist in public housing?

ALTHOUGH MORE COMMONLY IDENTIFIED IN PRIVATE HOUSING MARKETS, SUBMARKETS ARE ALSO SHOWN TO EXIST IN PUBLIC HOUSING — DEMAND AND SUPPLY DIFFER FOR PARTICULAR DWELLING TYPES AND CERTAIN LOCATIONS. INFORMATION ON PUBLIC HOUSING SUBMARKETS MIGHT POTENTIALLY ASSIST POLICY MAKERS TO FINE-TUNE THEIR ALLOCATION, RENT AND ASSET MANAGEMENT POLICIES.

KEY POINTS

- A *housing submarket* is a concept frequently used by housing economists to describe a distinctive part of the wider housing market, whereby demand and supply conditions differ markedly between location or consumer group. Although used more widely to analyse private housing markets where demand and supply trends can be easily detected through such measures as price or rent, there are also ways of detecting submarkets within public housing.
- Analysis of data from the Victorian Office of Housing has shown that submarkets exist for particular client groups, and across different locations. For example, demand for high-rise accommodation is significantly higher amongst Asian and African residents compared to those Australian born.
- High rates of unfulfilled demand are especially apparent in locations where private sector rents are comparatively high, such as Booroondara, Nillumbik and Manningham. High private sector rents are also apparent in the Melbourne CBD, however, because of a large supply of high rise dwellings, supply usually meets demand.
- Demand for particular locations or housing stock might be high for a number of reasons, including tenant's strategic use of the allocations system, so policy makers need to be careful in interpreting demand data.
- Even so, analysis of administrative data to recognise submarket differences can help fine tune management and policy practices in the public housing sector, such as allocations, rent and asset management policies.

*This bulletin is based on research by **Professor Terry Burke** and **Associate Professor Maryann Wulff** of the AHURI Swinburne-Monash Research Centre. The research examined whether submarkets can be identified within public housing and, if so, assess how this knowledge might guide better decision making within social housing agencies.*

BACKGROUND

The submarket concept recognises that demand and supply conditions are not universally uniform — conditions can vary across geographical areas or between types of consumers. A *submarket* is a shorthand term used by economists to describe a distinctive part of a wider market. In housing economics, it is used more frequently in relation to private sector real estate markets. Planners, developers and real estate agents recognise differences in submarkets by adopting different marketing, development, planning and policy approaches tailored to the distinctive attributes of the submarket.

Little attention has been paid to submarkets in the social housing sector, partly because it has been presumed that they were either not relevant or not identifiable in the absence of market mechanisms such as open market rents or house prices. Nevertheless, differing demand and supply conditions may still exist in public housing, and submarkets might still be identified by using other information. If they do exist, and can be correctly identified, public sector managers may be more able to intervene than in the private housing sector.

METHODS

The first stage of this study reviewed the national and international research literature to identify the range of methods employed in submarket analysis.

This study also sought to test for the existence of submarkets and relied on statistical analysis of three de-identified administrative data files from the Victorian Office of Housing (OoH). The data included information on all applicants for public housing between 1 January 2000 and 30 June 2008; property

characteristics of all public housing dwellings as of August 2008; and tenants' rental payments and rebates as of August 2008.

FINDINGS

Evidence for public housing submarkets in Melbourne

The research provides a number of statistical applications of the administrative data files to demonstrate differential performance across public housing submarkets in metropolitan Melbourne. There are a number of indicators that might be used to detect this, including static (comparing locations or client group at a point in time) and dynamic (across time) measures. Static measures are presented below.

Submarkets for consumer groups

Table 1 shows three distinct segments of new applicants, which are identified as *Young single Australian born*, *Young single Asian or African born* and *Single parents* and, for each segment, documents their housing circumstances. As submarket analysis would suggest, clear and distinctive differences emerge in their allocations of housing. *Single parents* are much more likely to be allocated separate houses. Despite similarities in age and single status, Australian born and Asian/African born show statistically distinct differences in allocation to high rise dwellings. This may relate to differential preferences for housing types amongst different client groups applying for public housing.

Submarkets in certain locations

Much submarket analysis has focused on spatial variations in submarkets. Submarkets are a product of both demand and supply — if supply is the

TABLE 1: NEW APPLICANT CLIENT GROUPS, BY HOUSING TYPE ALLOCATED (PERCENT)

Housing type	Younger single, Australian born	Younger single, Asian or African born	Single parent
In separate house	12.8	7.5	38.0
In high rise flat	14.3	36.4	15.6
In medium density townhouse or villa	25.1	12.8	18.3
In low rise flat (old walk-up)	29.1	33.1	16.6

Source: Department of Human Services, Office of Housing, Housing and Community Building Division, Melbourne Recent Applicants Research Ready Database, 2002-2006. The particular groups are derived through CHAID analysis and are statistically significantly different in their housing allocations.

same across areas in the private rental market then demand is rationed across that supply mainly by using rent levels (and potentially other discriminatory methods). In the social housing system, the rent level is not used as a rationing instrument.

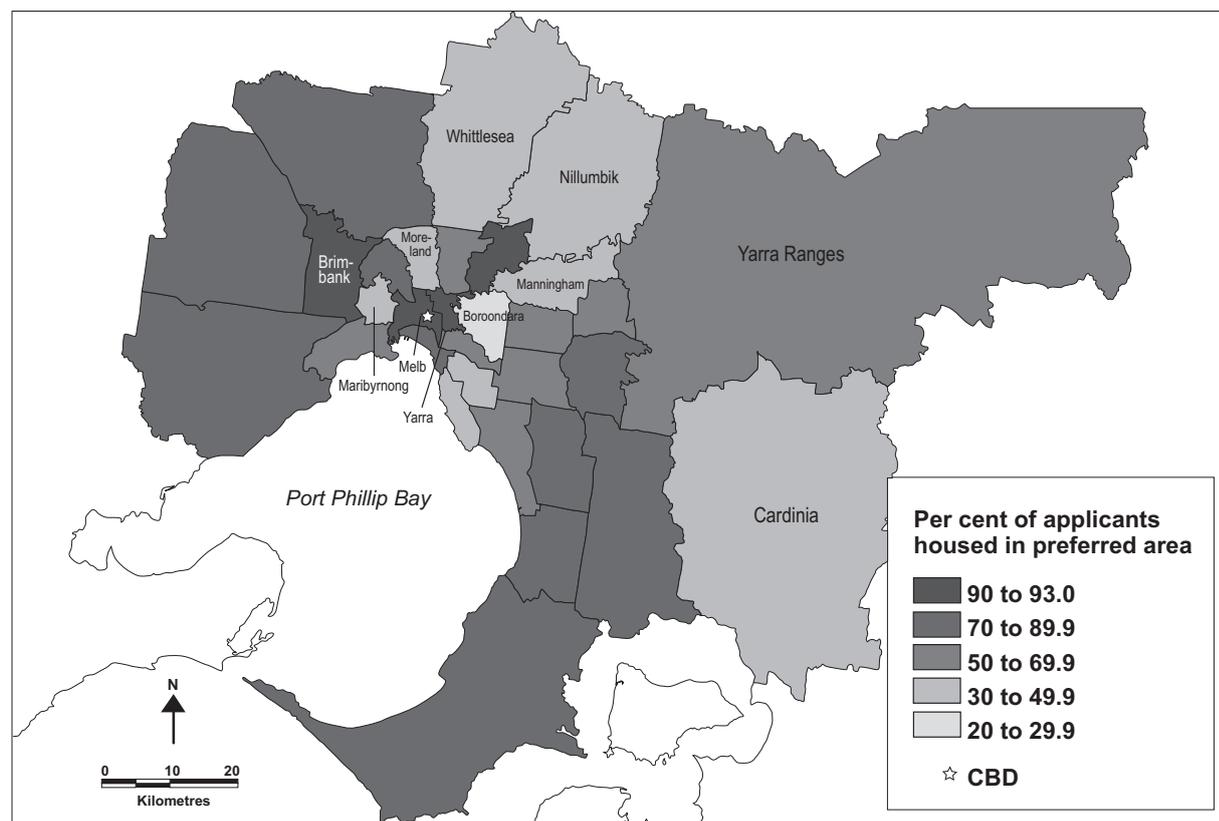
Public housing has administered prices (embodied in the household rent). Like other public housing regions in Victoria, the household rent for new tenants is typically set at 25 per cent of income. Given the low income of most applicants, this means the household rent will be quite low compared with local private market rents creating a *rent gap* that differs across the city. Thus, pricing (as revealed in the rent gap) may have some effect on client behaviour – the difference between the household rent and private market rent may affect the demand for housing in different areas or submarkets. The analysis conducted for Victoria indicates that rent levels in public housing in certain localities are significantly lower than equivalent properties in the private sector, and this is correlated with high demand for social housing in those locations (and relatively few new tenants successfully gaining properties in those areas).

Information from the administrative data-file was merged with ABS census data (for 2006) to look at

the *rent gap*; i.e. the difference between the weekly rent paid by the tenant (administrative data) from the market rent in the area (as measured by 2006 census data). The analysis reveals substantial differentials: many outer suburban areas showed differentials of less than \$60 per week compared with differentials of over \$200 per week in more inner areas such as Melbourne city, Booroondara, Port Phillip, Bayside, Manningham and Nillumbik. These differentials have considerable potential to affect the behaviours of public sector applicants in ways that are perhaps unclear without further analysis.

The importance of identifying housing differentiation across different parts of the city for public housing is that applicants are more often than not aware of the public housing dwelling attributes of an area, of the amenity of the surrounding area, the availability of support agencies in the area, and the relative opportunity to get housed. In Victoria applicants have an opportunity to nominate up to three preferred locations for housing allocation. The statistical analysis presents the proportion of applicants living in their nominated area (by Local Government Area) and reveals quite marked variations in the ability to be housed in an applicants preferred area ranging from less than a 29 per cent

FIGURE 1: PER CENT OF RECENTLY HOUSED APPLICANTS RESIDING IN PREFERRED AREA



Source: Department of Human Services, Office of Housing, Housing and Community Building Division, Melbourne Recent Applicants Research Ready Database, 2002-2006

chance in some areas, to over 90 per cent in others (See Figure 1). Areas with a close match between nominated preference and current residence include Brimbank to the west, the city of Melbourne, and Yarra in close proximity to the CBD. All three locations have a large number of public dwellings, with Melbourne and Yarra being characterised by high rise flats and Brimbank by separate detached houses. By contrast, Nillumbik, Manningham and Booroondara all have relatively low proportions housed in preferred area (and, coincidentally, high rent differentials) suggesting these are areas of high demand and limited supply.

POLICY IMPLICATIONS

Is the submarket concept a useful policy tool?

This research suggests that the existence and nature of submarkets within the social housing sector are worthy of careful examination and that state housing authorities hold information in their administrative data bases to undertake that examination. If prepared for research purposes, administrative data bases can serve as a valuable source for policy-related analyses.

Because the characteristics of applicants (demand) and the public sector stock (supply) are potentially more amenable to policy or planning interventions than private sector submarkets, information on submarkets may provide a useful framework for policy and practice reform. Examples of the sorts of policy interventions that might be possible using submarket information are below.

Allocations policy: housing authorities might use information about submarkets to influence the demand side by limiting eligibility for particular dwelling types to groups that need it most.

For example, it may be important to provide prioritised eligibility in certain locations for African or Asian born people to enable connexion with their particular ethnic communities. Alternatively, authorities might address demand by offering less attractive stock to a wider range of people or earlier.

Rent policy: authorities might adjust rent policy in certain locations to introduce some measure of market forces into the system to reflect the different levels of amenities in different locations or housing types. For example, rents might be increased in locations in high demand, or discounted in locations of low demand.

Asset management: on the supply side, knowledge about submarkets might be used to influence a range of asset management strategies, from new construction to sale and transfer policies. For example, policy makers might use information about rent gaps to decide whether a high value property should be realised through redevelopment or sold so that the proceeds can be reinvested elsewhere.

FURTHER INFORMATION

This bulletin is based on AHURI project 50347 *Submarkets in public sector housing: an abstract concept or a decision-making tool?*

Reports from this project can be found on the AHURI website.

See also Burke, T., Neske, C. and Ralston, L. (2005) *Entering Public Housing*. Melbourne. AHURI: AHURI Final Report No. 59

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